

DOCUMENT RESUME

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[Two Coproduction Programs: F-5E Aircraft in Taiwan and M-16 Rifle in the Philippines (Unclassified Digest)]. ID-76-84; B-165731. June 6, 1977. 2 pp.

Report to the Congress; by Elmer B. Staats, Comptroller General.

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Coproduction is a program wherein the United States enables an eligible country or international organization to acquire the expertise to manufacture, assemble, repair, and maintain a specific weapon, support system, or individual military item. It might be limited to the assembly of a few end items, with small input of local country parts, or it might be extended to a major manufacturing effort requiring the buildup of capital industries. The long-run economic impact of coproduction is that it establishes or expands a production base and increases management and technical skills that will enable the buying country to become less dependent on foreign sellers. Findings/Conclusions: The long-term economic value of the Philippine M-16 rifle and Taiwan F-5E coproduction projects is reflected by the enhanced technological, production, and managerial capabilities of these countries. The Philippines is investing in a technological upgrading of its industrial sector, which is expected to result in long-term economic benefits beyond rifle production. Taiwan is gaining moderate technological ability with its coproduction program, of which a significant portion of the manufacture remains in the United States. The financial impact of the coproduction project on the Philippines has been positive. There has been a decrease in the outflow of foreign exchange and the local economy has been aided. Taiwan has experienced a negative impact in the increase of outflow of foreign exchange; however, in that portion of cost being spent on Taiwanese goods and services, the local economy has been aided. These two coproduction programs are meeting their objectives, including expansion of technical and military support capabilities. There has been no important adverse impact on U.S. labor. (Author/QM)

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COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

TWO COPRODUCTION PROGRAMS--
F-5E AIRCRAFT IN TAIWAN AND
M-16 RIFLE IN THE PHILIPPINES
Departments of State and Defense

D I G E S T

U.S. allies are placing increased importance on expanding technical and production capabilities to reduce their dependence on other countries for basic military articles. "Coproduction" is one way to achieve this.

Coproduction is a program wherein the United States enables an eligible country or international organization to acquire the expertise to manufacture, assemble, repair, and maintain a specific weapon, support system, or individual military item. Coproduction might be limited to the assembly of a few end items, with small input of local country parts, or might be extended to a major manufacturing effort requiring the buildup of capital industries.

The long-run economic impact of coproduction is that it establishes or expands a production base and increases management and technical skills that will enable the buying country to become less dependent on foreign sellers.

The economic impact of coproduction on cash flow is unique with each country or project. The impact is dependent upon the investment costs that are spent in country, labor rates, and the work content of the project.

The long-term economic value of the Philippine M-16 rifle and Taiwan F-5E coproduction projects is reflected by the enhanced technological, production, and managerial capabilities of these countries. (See p. 8.)

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In addition to purchasing the capability to produce M-16 rifles in the future, the Philippines is investing in a technological upgrading of its industrial sector which is expected to result in long-term economic benefits beyond rifle production. (See pp. 5 and 8.)

With the coproduction of the F-5E, Taiwan is gaining moderate technological ability. This technology is about 10 years old by U.S. standards. In addition, a significant portion of the manufacture of the F-5E remains in the United States. (See pp. 2 and 7.)

The financial impact of the M-16 rifle coproduction project on the Philippine economy is positive. There has been a decrease in the outflow of foreign exchange. In that portion of cost being spent on Philippine goods and services, the local economy is aided. (See pp. 4, 6, and 8.)

Taiwan has experienced a negative impact in the increase of outflow of foreign exchange. However, in that portion of cost being spent on Taiwanese goods and services, the local economy is aided. (See pp. 2 and 8.)

In this report, classified for security reasons, GAO discusses how the F-5E and M-16 coproduction programs are meeting their objectives, including expansion of technical and military support capabilities.

Neither involves transfer of high U.S. technology in relation to that possessed by other industrialized countries. (See p. 8.) Controls over transfers of materials or end items of these projects to other countries, although passive, appear to be appropriate. (See p. 9.) There is no important adverse impact on U.S. labor and the projects earn economic benefits for the United States. (See pp. 8 and 9.)

The Departments of State and Defense reviewed the report and had no disagreement with the contents.